

1 Amend Section 19814, and add sections 19814.1 and 19832 through ~~19837~~ 19836 to
2 read:

3 **TITLE 5. Education**

4 **Division 1.5. Education Audit Appeals Panel**

5 **Chapter 3. Audits of California K-12 Local Education Agencies**

6 **Article 2. Audit Reports**

7 **§ 19814. Definitions.**

8 The content of the audit report sections and subsections specified in Section 19813 is
9 as described in the *Codification of Statements on Auditing Standards* published by the
10 American Institute of Certified Public Accountants, the *Codification of Governmental*
11 *Accounting and Financial Reporting Standards* published by the Governmental
12 Accounting Standards Board (GASB), or *Government Auditing Standards* published by
13 the Comptroller General of the United States in the respective editions applicable to the
14 year being audited, or as defined in one of the following:

15 (a) “*Government Auditing Standards*” means the publication by the Comptroller
16 General of the United States, United States General Accounting Office, originally issued
17 in 1972 and revised from time to time, commonly known as the “Yellow Book,” that
18 contains standards for audits of government organizations, programs, activities, and
19 functions and that is referenced in Education Code sections 14501, 14503, and
20 41020(b)(4).

21 (b) “OMB Circular A-133” means the publication, produced by the federal Office of
22 Management and Budget and titled *Audits of States, Local Governments, and Non-Profit*
23 *Organizations*, that sets forth standards for attaining consistency and uniformity in the
24 audits of governments and organizations expending federal awards.

1 (c) “Reconciliation of Annual Financial and Budget Report with Audited Financial
2 Statements” means a schedule that displays the differences between the ending fund
3 balance(s) from the audited financial statements and the unaudited ending fund balance(s)
4 from the annual financial and budget report for each fund in which a variance occurred.

5 (d) “Report on Compliance with Laws and Regulations and on Internal Control Over
6 Financial Reporting Based on an Audit of Financial Statements Performed in Accordance
7 with *Government Auditing Standards*” means the component of the Other Independent
8 Auditor’s Reports that specifies material instances of noncompliance, if any; defines
9 reportable conditions and specifies the reportable conditions disclosed as a result of the
10 audit; defines material weaknesses and specifies the material weaknesses, if any, that
11 were disclosed by the audit; includes a statement that no material weaknesses were found,
12 if that is the case; and includes a statement that nonmaterial noncompliance and
13 nonreportable conditions involving the internal control structure and its operation were
14 communicated to management in a separate management letter, if that is the case.

15 (e) “Report on State Compliance” means the component of the Other Independent
16 Auditor’s Reports that specifically and separately addresses each of the state compliance
17 requirements included in this audit guide that are applicable to the year audited, stating
18 whether or not the district is in compliance with those requirements; includes a chart that
19 displays the number of audit procedures for each compliance requirement applicable to
20 the year audited and states that the audit procedures included in the audit guide for each
21 requirement were followed in the making of the audit, if that is the case, or, if not, what
22 other procedures were followed; and includes an expression of positive assurance with
23 respect to compliance with applicable laws and regulations for those items tested in
24 accordance with those regulations, and negative assurance for untested items.

1 The numbers of audit procedures for the compliance requirements included in this
2 audit guide are

3 Attendance Reporting, 6;
4 Kindergarten Continuance, 3;
5 Independent Study, 22;
6 Continuation Education, 10
7 Adult Education, 9;
8 Regional Occupational Centers and Programs, 6;
9 Instructional Time and Staff Development Reform Program, 7;
10 Instructional Time for school districts, 4, for county offices of education, 3;
11 Community Day Schools, 9;
12 Class Size Reduction general requirements, 7; Option One, 3; Option Two, 4; districts or
13 charter schools with only one school serving K-3, 4;
14 Program to Reduce Class Size in Two Courses in Grade 9 (Morgan-Hart Class Size
15 Reduction Program), 7;
16 Instructional Materials general requirements, 9; K-8 only, 1; grades 9-12 only, 1;
17 Ratios of Administrative Employees to Teachers, 1;
18 Early Retirement Incentive Program, 4;
19 Gann Limit Calculation, 1;
20 ~~State Funded Child Development:~~ Attendance and Family ~~Parent Fees, 8-4;~~
21 School Construction Funds: School District Bonds, 3; State School Facilities Funds, 1;
22 Alternative Pension Plans, 2 1 2;
23 Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000), 3 2;
24 State Lottery Funds (California State Lottery Act of 1984), 3 2;

1 California School Age Families Education (Cal-SAFE) Program, § 5.

2 (f) “Report on Compliance With Requirements Applicable to Each Major Program
3 and Internal Control Over Compliance in Accordance With OMB Circular A-133” means
4 the component of the Other Independent Auditor’s Reports that states whether the auditee
5 has complied with federal laws, regulations, and the provisions of federal contracts or
6 grant agreements and has established and maintained effective internal control over
7 compliance with the requirements for major federal programs.

8 (g) “Schedule of Average Daily Attendance” means the schedule in the
9 Supplementary Information section that displays Average Daily Attendance data for both
10 the Second Period and Annual reports, by grade level and program as appropriate.

11 (h) “Schedule of Charter Schools” means the schedule in the Supplementary
12 Information section that lists all charter schools chartered by the school district or county
13 office of education, and displays information for each charter school on whether or not
14 the charter school is included in the school district or county office of education audit.

15 (i) “Schedule of Financial Trends and Analysis” means the schedule in the
16 Supplementary Information section that displays information regarding the auditee’s
17 financial position and going concern status, in the form of actual financial and attendance
18 figures for at least the most recent three-year period (ending with the audit year), plus the
19 current year’s budget, for the following items: General Fund financial activity, including
20 total revenue, expenditures, and other sources and uses; General Fund balance; available
21 reserve balances (funds designated for economic uncertainty, and any other remaining
22 undesignated fund balance) within the General Fund, Special Reserve Fund, and any
23 Article XIII-B Trust Funds; available reserve balances expressed as a percentage of total
24 General Fund outgo (expenditures, transfers out, and other uses), including a comparison

1 to the applicable state-recommended available reserve percentage; total long-term debt;
2 and elementary and secondary Second Principal Average Daily Attendance, excluding
3 Regional Occupational Centers and Programs and Adult Average Daily Attendance; and,
4 when the auditee's percentage of available reserves to total General Fund outgo is below
5 the state-recommended percentage, management's plans for increasing the auditee's
6 available reserve percentage.

7 (j) "Schedule of Findings and Questioned Costs" means that part of the Findings and
8 Recommendations section that presents all audit year findings, and a copy of each
9 management letter issued, if any, with each finding assigned the appropriate code from
10 among the following: 10000 Attendance, 20000 Inventory of Equipment, 30000 Internal
11 Control, 40000 State Compliance, 50000 Federal Compliance, 60000 Miscellaneous, and
12 includes the following elements:

13 (1) criteria

14 (2) condition

15 (3) effect

16 (4) cause

17 (5) a statement of the number of units of Average Daily Attendance, if any, that were
18 inappropriately reported for apportionment; and a statement consistent with its basis of
19 funding, for any other inappropriately reported claim—such as number of staff
20 development days, or number of pupils for Class Size Reduction, or amount in dollars for
21 Instructional Materials, and so forth

22 (6) a recommendation for the resolution of the finding

23 (7) a corrective action plan prepared by the auditee that describes in specific terms the
24 actions planned or taken to correct the problem, or a statement from the auditee that the

corrective action recommended by the auditor is not necessary or appropriate and giving the specific reasons why, if that is the case, and a statement that the corrective action plan was not available if no corrective action plan was submitted before the audit report was prepared.

(k) “Schedule of Instructional Time” means the schedule in the Supplementary Information section that displays, for all auditees, including basic aid districts, data that show whether the auditee complied with the provisions of Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code.

(l) “Schedule of Prior Audit Findings” means that part of the Findings and Recommendations section that presents the status of actions taken by the auditee on each of the findings and recommendations reported in the prior-year audit, and includes as current year findings and recommendations those prior year findings that have not been resolved.

NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections 14502.1, 14503 and 41020, Education Code.

§ 19814.1. Applicability of Audit Procedures by Audit Year.

Of the compliance requirements set forth in Article 3:

(a) Sections 19815 through 19831 are applicable to audits of school year 2003-04;

(b) Sections 19815 through ~~19837~~ 19836 are applicable to audits of school year 2004-05.

NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections 14502.1, 14503 and 41020, Education Code.

Article 3. State Compliance Requirements

~~§ 19832. State Funded Child Development: Attendance and Family Parent Fees.~~

~~(a) For purposes of this section,~~

~~(1) "Certified child" means a child for whom eligibility for subsidized child development services has been certified as defined in subdivision (b) of Section 18078;~~

~~(2) "Contract" means a state-funded contract (local agreement for child development services) between the local education agency and the California Department of Education for center-based child care and development services for any of the following programs: Campus Child Care With Match (GCAM), General Child Care (GCTR), Migrant Child Care (GMIG), and School Age Community Child Care ("Latchkey"; GLTK).~~

~~(b) If the local education agency operated any center-based state-funded child care and development program had a contract or contracts during the year audited, perform the following audit procedures for each contract:~~

~~(a) Attendance~~

~~(1) Verify the mathematical accuracy of the data submitted to the California Department of Education pursuant to Section 18068 in the June final attendance report, which includes the cumulative data for the year audited.~~

~~(2) From the enrollment and attendance registers that support the data submitted to the California Department of Education pursuant to Section 18068 for the year audited, select a representative sample.~~

~~(A) Verify the mathematical accuracy of the data recorded.~~

~~(B) Verify that the enrollment, attendance, including attendance credited for excused absences pursuant to subdivision (e) of Education Code Section 8208, and days of operation were correctly recorded in the enrollment and attendance registers by tracing to~~

supporting documentation, including, but not limited to, the form specified in sections 18081(d), 18094, and 18095; and the sign in/sign out sheets required by Section 18065.

~~(3) Select a sample of excused absences.~~

~~(A) Verify that each excused absence is supported by documentation as required by Section 18066.~~

~~(B) Verify that not more than 10 excused absences “in the best interest of the child” (Section 18066(c)) were claimed for any one child during the contracted period, except for children who were recipients of protective services, or at risk of abuse, neglect, or exploitation, as documented pursuant to Section 18092 and subdivision (k) of Education Code Section 8208.~~

~~(4) Prepare a schedule displaying any inappropriately reported days of enrollment (include the unadjusted days, the adjustment factor pursuant to Education Code sections 8265.5 and 8266.1, and the adjusted days), days of attendance, and days of operation, and the appropriate numbers of days of enrollment, attendance, and days of operation. Include the schedule in the Findings and Recommendation section of the audit report.~~

~~(b) Family Fees~~

~~(1) From the local education agency’s enrollment and attendance registers among the family basic data files required by the provisions of Section 18081, select a representative sample of children certified for services during the year audited whose parents were charged assessed a parent (family) fee.~~

~~(A) Verify that the correct part time daily or full time daily family fee rate as set forth in the family fee schedule required by Section 18108 and applicable to the year audited was charged assessed, by reviewing on the basis of the information recorded on the application(s) for services specified in subdivision (b) of Section 18078 and~~

Section 18103 contained in the family's basic data file required by Section 18081 that was used to determine the family fee as prescribed by Section 18109 and following, and by referring to the rates on the family fee schedule required by Section 18108 that was applicable to the year audited.

~~(B) Verify that the assessed fees were collected by the local education agency, or that copies of receipts or cancelled checks are on file evidencing that fees were paid to another child care provider (Section 18112).~~

~~(B) (C) Verify that the family fees collected were deposited in the local education agency's child development fund in accordance with the provisions of Section 18064 and Education Code Section 8328.~~

~~(C) (D) Verify that the family fees collected were appropriately reported, by contract, appropriately to the California Department of Education pursuant to the provisions of Section 18068.~~

~~(2) Prepare a schedule displaying If any incorrect fee amount(s), that are identified through the foregoing procedures along with the correct amounts, and applicable fees that were not collected by the local education agency or not appropriately evidenced as having been paid to another child care provider, or fees collected but not deposited in the local education agency's child development fund are identified through the foregoing procedures, prepare a schedule displaying the incorrect fee amount(s) along with the respective correct amount(s), the fees not collected or evidenced as paid to another child care provider, and the fees inappropriately deposited and the fund(s) in which the fees were inappropriately deposited. Include the schedule in the Findings and Recommendation section of the audit report.~~

Include in the schedule a notation to indicate any instance in which it is found that

documentation was insufficient to determine a correct fee amount.

~~NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections~~

~~14502.1, 14503 and 41020, Education Code.~~

~~§ 19833, School Construction Funds.~~

(a) School district bonds.

(1) Verify that the proceeds from the sale of bonds issued pursuant to the provisions of Education Code Section 15140 were deposited in accordance with the provisions of Education Code Section 15146.

(2) Select a sample of expenditures and ~~Verify~~ verify that bond proceeds were expended only for the purpose(s) for which the bonds were issued, as specified in the official statement or statements of bond indenture submitted by the school district governing board to the county auditor or county treasurer.

(3) Verify that any money transferred to the general fund of the district from the interest and sinking fund was transferred in compliance with the provisions of Education Code Section 15234.

(4) If any proceeds from the sale of bonds are found to have been deposited inappropriately or to have been expended for purposes other than those specified in the official statement or statements of bond indenture, or if any money is found to have been transferred inappropriately from the interest and sinking fund, include a finding in the Findings and Recommendations section of the audit report stating the amount inappropriately deposited, expended, or transferred.

(b) State School Facilities Funds.

(1) Select a sample of expenditures and ~~Verify~~ verify that expenditures ~~of funds~~ from the school district's account in the county school facilities fund were made only for

1 qualifying school facilities expenditures as provided in subdivision (c) of Education Code
2 Section 17070.43 and additionally set forth in Education Code Section 17072.35, or in
3 Education Code Section 17074.25 as further defined in subdivision (f) of Education Code
4 Section 17070.15; or for other high priority capital outlay purposes in accordance with
5 the provisions of subdivision (c) of Education Code Section 17070.63.

6 (2) If any expenditures of funds from the school district's account in the county
7 school facilities fund are found to have been made for non-qualifying purposes, include a
8 finding in the Findings and Recommendations section of the audit report stating the
9 amount inappropriately expended.

10 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
11 14502.1, 14503 and 41020, Education Code.

12 **§ ~~19834~~ 19833. Alternative Pension Plans.**

13 (a) As used in this section, "alternative pension plan" means a pension plan not
14 administered by the California Public Employees Retirement System (Government Code
15 Section 20000 and following) or the State Teachers Retirement System (Education Code
16 Section 22000 and following).

17 (b) ~~Interview administrative personnel and Determine determine~~ whether the
18 local education agency has created an entity, ~~or~~ joined a joint powers authority, ~~or~~
19 ~~entered into a joint venture~~ that provides for an alternative pension plan for its current
20 ~~or former~~ permanent, full-time employees.

21 (c) If the local education agency has done so, ~~discuss the following information in~~
22 ~~the note disclosure in the Notes to the Basic Financial Statements a comment included~~
23 ~~in the Findings and Recommendations section of the audit report; determine that~~
24 ~~the activity is fully disclosed in the notes to the financial statements.~~

~~(1) The date the entity was created or the joint powers authority was joined by the auditee.~~

~~(2) The purpose of the entity or the joint powers authority as stated in the document memorializing the creation of the entity or in the joint powers authority agreement.~~

~~(3) The number of local education agency employees who have separated from the local education agency and then been employed by the created entity or joint powers authority, and the nature of the services that these persons are providing to the local education agency.~~

~~(4) Whether the employees of the local education agency, created entity, or joint powers authority have a choice of selecting the alternative pension plan or one or the other of the California Public Employees Retirement System and State Teachers Retirement System.~~

~~(5) (4) Whether the employees who have elected to participate in the alternative pension plan have continued to participate in the California Public Employees Retirement System or State Teachers Retirement System, and whether those participating in the California Public Employees Retirement System have continued to contribute to Social Security.~~

~~(6) Whether any element of the benefit package provided by the alternative pension plan materially exceeds its counterpart in the benefit package provided by the California Public Employees Retirement System or State Teachers Retirement System.~~

~~(7) (5) The amount the local education agency paid to the created entity or joint powers authority for management or administrative fees for the year audited.~~

~~(8) (6) The address for obtaining copies of the created entity's or joint powers~~

1 ~~authority's financial statements.~~

2 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
3 14502.1, 14503 and 41020, Education Code.

4 ~~§ 19835~~ **19834. Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000).**

5 Determine the amount of the Proposition 20 restricted lottery allowance received
6 from the State Controller.

7 (a) Verify that the allowance received was accounted for separately.

8 (b) From the expenditures of the Proposition 20 restricted lottery allowance funds,
9 select a sample and verify that they were for instructional materials as defined in
10 subdivisions (h), (m), or (n) of Education Code Section 60010.

11 (c) If any expenditure was not for instructional materials, include its amount in a
12 finding in the Findings and Recommendations section of the audit report.

13 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
14 14502.1, 14503 and 41020, Education Code.

15 ~~§ 19836~~ **19835. State Lottery Funds (California State Lottery Act of 1984).**

16 Determine the amount of the non-Proposition 20 lottery allowance received from the
17 State Controller.

18 (a) Verify that the allowance was accounted for separately as required by subdivision
19 (k) of Government Code Section 8880.5.

20 (b) From the expenditures of the non-Proposition 20 lottery allowance funds, select a
21 sample and determine whether any funds were used for the acquisition of real property,
22 construction of facilities, or financing of research.

23 (c) If any non-Proposition 20 lottery funds are identified as having been expended for
24 the acquisition of real property, construction of facilities, or financing of research,

1 include the amount of the expenditure in a finding in the Findings and Recommendations
2 section of the audit report.

3 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
4 14502.1, 14503 and 41020, Education Code.

5 **§ ~~19837~~ 19836. California School Age Families Education (Cal-SAFE) Program.**

6 If the school district, county office of education, or charter school received Cal-SAFE
7 funds for the audited year, perform the following procedures.

8 (a) Cal-SAFE Supportive Services

9 ~~Review the supporting documentation for the annual data reported to the California~~
10 ~~Department of Education.~~

11 ~~(1) Verify that Determine whether the reported Cal-SAFE annual data report of~~
12 ~~attendance submitted to the California Department of Education reconciles to supporting~~
13 ~~documentation by tracing the Average Daily Attendance numbers from the annual report~~
14 ~~to verifying the local education agency's summaries and verifying the calculation of~~
15 ~~Average Daily Attendance calculations for each reporting line item.~~

16 ~~(2) For each line item, Select select a representative sample of Cal-SAFE pupils and~~
17 ~~trace, to the data origination documentation, their whose Average Daily Attendance was~~
18 ~~included, in the total annual Average Daily Attendance reported to the California~~
19 ~~Department of Education. Verify the mathematical accuracy of the attendance registers,~~
20 ~~scantron summaries, or other data arrays. For each pupil in each sample, verify the~~
21 ~~Average Daily Attendance calculation, and trace the pupil's daily attendance to the data~~
22 ~~origination documentation.~~

23 ~~(3) Verify that the school district, county office of education, or charter school did not~~
24 ~~claim support services allowances for units of Average Daily Attendance reported for any~~

1 of the following:

2 (A) pupils attending county community schools operated pursuant to Chapter 6.5 of
3 Part 2 (commencing with Section 1980) who are deemed, pursuant to subdivision (b) of
4 Education Code Section 1982, to be enrolled in juvenile court schools for the purpose of
5 making apportionments;

6 (B) pupils attending juvenile court schools operated pursuant to Article 2.5
7 (commencing with Section 48645) of Chapter 4 of Part 27;

8 (C) pupils attending community day schools operated pursuant to Article 3
9 (commencing with Section 48660) of Chapter 4 of Part 27.

10 (4) (3) Determine whether any Cal-SAFE pupils were concurrently enrolled in more
11 than one educational program generated Average Daily Attendance in more than one
12 program. Select a representative sample of such from among such pupils. Verify that not
13 more than a total of one unit of Average Daily Attendance generated by each pupil was
14 reported for support services allowance claims included in the report.

15 (4) If the total reported units of Cal-SAFE Average Daily Attendance include more
16 than one unit of Average Daily Attendance for any pupil, include a statement in the
17 Findings and Recommendations section of the audit report of the number of excess
18 unit(s).

19 (5) If any inappropriately reported units of Average Daily Attendance are identified
20 through the foregoing audit procedures steps 1 and 2, subtract the inappropriately
21 reported units of Average Daily Attendance from the total reported. From the resulting
22 total, subtract any excess units of Average Daily Attendance identified through step 3.
23 Recalculate the number of support services allowances. Include a statement in the
24 Findings and Recommendations section of the audit report of the correct number of

1 support services allowances and the dollar value of the inappropriately claimed support
2 services allowances.

3 (6) Verify that state funds allocated for support services were maintained in a separate
4 account as required by subdivision (b) of Education Code Section 54749.

5 (7) Verify that funds generated pursuant to Education Code Section 2551.3,
6 subdivision (b) of Education Code Section 54749.5, and Education Code Section 54749
7 were maintained in a separate account as required by subdivision (d) of Education Code
8 Section 54749.

9 (8) If any support services funds are found not to have been maintained in a separate
10 account, include a finding in the Findings and Recommendations section of the audit
11 report stating the amount of such funds and identifying the ~~fund(s)~~ **account(s)** in which
12 the support service funds were inappropriately ~~deposited~~ **maintained**.

13 (b) Cal-SAFE Child Care and Development Services

14 ~~Review the supporting documentation for the data reported to the California~~
15 ~~Department of Education.~~

16 ~~(1) Verify that the days of enrollment and the days of attendance reported to the~~
17 ~~California Department of Education reconcile to the enrollment forms and daily sign in~~
18 ~~sheets.~~

19 ~~(2) Verify that the days of operation reported to the California Department of~~
20 ~~Education are the actual number of days the child care was in operation.~~

21 ~~(3) If any inappropriately reported days of enrollment, days of attendance, or days of~~
22 ~~operation are identified through the foregoing audit procedures, include a finding in the~~
23 ~~Findings and Recommendations section of the audit report stating the number of~~
24 ~~inappropriately reported days of enrollment, days of attendance, and days of operation.~~

1 ~~(4)~~ (1) Verify that funds allocated for child care and development services were
2 maintained in a separate account as required by subdivision (c) of Education Code
3 Section 54749.

4 ~~(5)~~ (2) If any funds allocated for child care and development services are found not to
5 have been maintained in a separate account, include a finding in the Findings and
6 Recommendations section of the audit report stating the amount of such funds and
7 identifying the ~~fund~~ account in which the funds were inappropriately ~~deposited~~
8 ~~maintained~~.

9 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
10 14502.1, 14503 and 41020, Education Code.

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